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ABSTRACT

In Texas, a financially troubled school district must submit a plan of action to the Texas Education Agency (TEA) for improving its financial situation without harming the quality of education delivered. If things get worse, TEA assigns a financial monitor to advise the district on overcoming its financial problems and to determine if further sanctions are necessary. If financial conditions continue to worsen, TEA sends a Master, who has authority to overrule the superintendent and the board. District options for bringing costs under control include reducing personnel; contracting out for transportation, food, and custodial services; increasing efforts to collect taxes or recover delinquent taxes; raising the tax rate; and increasing the average daily attendance, the main factor in determining state aid levels. In extreme cases, the district may opt to divest itself of high school or all secondary grade levels. Nearby wealthy districts can be solicited to purchase weighted average daily attendance or to consolidate tax bases with the struggling district. If there are no wealthy districts nearby, help cannot be solicited. Voluntary consolidation or annexation can be accomplished with approval from voters in both districts. Districts in grave financial condition will be dissolved and ordered to be annexed to an adjoining district. In either consolidation or annexation, the receiving district receives special funds to assist in the handling of the inherited deficit. This paper recounts a small district's journey through this process to forced annexation and gives recommendations to districts in similar circumstances. (TD)

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A Small District's Quest for Survival

by

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A SMALL DISTRICT'S QUEST FOR SURVIVAL

Introduction

In Texas, there are 1,185 public school districts at the beginning of the 2000-2001 school-year. Most of these are small and rural school districts. Life in a small community is something treasured by many people. They enjoy living in small communities, particularly rural, for a variety of reasons. Among these are: enjoyment of a quality of life they cannot find in large cities; enjoyment of a different pace of living; a desire to live where their families have been raised for generations; a desire to raise their children in a place where they feel safe because they know virtually everyone; and living in a place where they may be able to buy a larger house and more land than in the large cities. These communities identify themselves through their public schools and cherish local control of their schools to keep their communities' character and vitality in good standing.

One of the greatest challenges that small school districts face is that of having an appropriate tax base of support to stay in operation. Even though these communities may have residential houses and some retail businesses, the bulk of their tax base is apt to be driven by an agricultural or an oil and gas economy. If that economic vitality wanes, then communities may see a decline in population and the number of retail businesses that stay open. The decline of economic vitality may cause financial difficulties for the school districts.

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Every year a small number of the public school districts in Texas experience financial difficulties of a magnitude that forces them to declare a state of financial exigency. The resulting effect too many times creates a state of affairs in which money has to be borrowed from a lending institution to cover a budget in deficit, as well as severe cuts in operating costs. Most such districts manage to pull themselves out through a deficit reduction plan that allows them to continue to operate. The following article relates to my experience as an interim superintendent of a small school district in such a predicament. First, a background is given regarding options usually taken by districts in similar initial circumstances. This is followed by a description of the struggle the district underwent. A concluding statement is provided at the end incorporating my reflections and recommendations for schools in similar circumstances.

Background

The purpose of a deficit reduction plan is for the troubled district to submit a plan of action to the Texas Education Agency (TEA) for turning its financial situation around. As with any other district plan that affects significant change, TEA expects that the citizens of the district be kept informed and be called upon to participate in the development of the plan. The plan itself is to focus on maximizing revenues coming into the district and reducing operating costs to the most efficient point possible. All of this must be done without significantly adversely affecting the quality of education of the students.

At some point when a district gets into a serious financial crisis, TEA will assign a financial monitor to the district. The monitor is there to determine if further sanctions are necessary and to advise the district on how to overcome its financial problems. The district is responsible for how its decisions and actions impact the financial well-being of the district. And when financial conditions worsen, TEA will send a Master. Masters are sent with the authority to overrule the superintendent and the board.

The actions that a school district can take to bring costs under control are somewhat limited. Most actions call for an extra dose of political courage. Since roughly 80% of a school district's budget is dedicated to personnel salaries and related personnel expenses, a reduction-in-force (RIF) tends to have a significant impact on reducing operating costs. Other major actions that may reduce costs are, for example, contracting out for transportation services, food services, and custodial services. Furthermore, a district may want to increase its efforts to collect taxes, the recovery rate of delinquent tax collections, the average-daily-attendance (ADA) of its students, and consider raising the tax rate.

The ADA is the main factor which determines the amount of State aid the district receives annually. State guidelines for raising tax rates have to be observed. In extreme situations, especially in the smaller school districts, the district may want to divest itself of either the high school grade levels or all secondary grade levels (as per provisions in Chapter 41, subchapter E, of the Texas Education Code, 1998). Such action may allow the district to bring costs under control, while preserving a measure of community identity through the remaining grade levels.

In the midst of reducing costs and reorganizing priorities, these districts may need to borrow money from a lending institution to make payroll and cover other operating expenses for the fiscal year. Consequently, the interest owed on the loan is factored in as well. In addition, litigation costs are factored in for legal challenges to the RIF. Both TEA and the lending institutions examine carefully the financial outlook of the district, if support is to be forthcoming. A poor track record of financial stability, coupled with a bleak outlook, may dictate that the days of existence for that district are numbered.

The Texas Education Code (1998) allows wealthy districts seeking to equalize their wealth to purchase weighted average daily attendance (WADA) or to agree to consolidate tax bases with another district. If there are no truly wealthy districts close to a district that is struggling, help cannot be solicited. If wealthy districts in other parts of the state choose to equalize their wealth by returning the excess funds to the State, then the struggling district is unable to benefit from these options.

Chapter 13 of the Education Code (1998) allows for two more options similar to those afforded to wealthy districts under Chapter 41. They are consolidation and annexation. Both of these options are available, if the struggling district acts on time. Both options can be voluntary acts on the part of the districts wishing to join together. They have to seek and win approval from their voters to carry out the consolidation or annexation (TEA, 1998). If the voters of just one district refuse the consolidation or annexation proposal, then the issue is mute. However, if it seems that both sides are in favor, then there is also room for mediation. Mediation is a means by which both sides meet to arrive at concessions. Some items that can be brought to mediation are, for example, the

number of campuses that are to stay open, the number of teachers to be retained, names to continue for sports teams, and so on. Concessions can best be won when the district in financial trouble still has some bargaining power. When financial conditions are severe and time runs out, so does the bargaining power. The Texas Education Code, teacher contract renewal deadlines, and financial conditions dictate the time factor to be used to act on consolidation.

Districts in grave financial condition for whom time and options have run out will receive an Order of Annexation from the Commissioner of Education. The troubled district is dissolved and forced to become part of an adjoining school district in the same county by July 1 of that calendar year. A period of transition begins to take place after the order is issued, during which time student records and financial accounts are to be shared with the receiving district. In either consolidation or annexation, the receiving school district receives special funds to assist in the handling of the inherited deficit once the transition takes place (TEA, 1998).

The Struggle

The struggle described here relates to a district that was in severe financial conditions. With this background in mind, recollections begin in late summer of 1998 when the superintendent reported to those present that the awaited loan had just been approved. This was a loan to help meet payroll for August. Shortly afterwards, the financial mission for the district was to be as frugal as possible.

The idea of adding more austerity to already tight campus budgets was received with skepticism by some teachers at in-service time in August. The teachers had been living with this kind of a situation for so long that it had become normal to them. A few teachers remarked that they had been through similar monetary crises before, but that things had always worked out.

And so frugality was the word. Almost all workshop travel was brought to a halt. Even meals for the sports teams' away games were severely curtailed. When several requests for workshop travel were turned down and when teachers saw that even meals for out of town football games were affected, it was then that they began to feel the gravity of the financial situation. Nevertheless, it soon became evident that for every dollar saved, a dollar or more had to be spent on building and equipment repairs and copy machines that periodically broke down. However, the extreme frugality measures, plus the vigorous delinquent tax collection efforts by the new district tax attorneys, did help stretch the available revenues through February 1999.

In October, a report was presented to the district's board of trustees, by the financial monitor assigned to the district, in which he presented his case for the district to seek consolidation with the neighboring district (Bolton, 1998). This report, which by and large went unpublicized, contained the background of the situation at hand and is paraphrased here. In March 1996 TEA conducted an investigation of the financial condition of the district and found a financial crisis, as indicated by a lack of sufficient funds to cover payroll obligations through August 31, 1996. This resulted from the

district:

1. Attempting to be the local source of jobs for as many people in the community as possible;
2. Lowering the tax rate during one of the base years for determining the guaranteed yield amount, thus reducing state revenue to the district in subsequent years, and
3. Not taking into account overpayments from the state and spending the overpayment amounts, resulting in reductions in state funds during the following years. (Bolton, 1998)

These actions prompted TEA to lower the district's accreditation status to unacceptable and assigned a financial monitor to the district. The monitor was assigned to conduct a full assessment of the district's financial condition, determine if any further sanctions were necessary, and assist in overcoming the deficit.

The report also chronicled a historical financial sketch of the district from 1996 to 1998. In each of these years, the district continued to spend overpayments from the state it had not earned. In each of these years, the district continued with a deficit budget status and had to borrow money to pay teachers and cover operating costs. With the exception of one year, the deficit fund balance increased annually. Lawsuits also came into the picture due to challenged terminations and settlements were costly.

In addition, the report indicated that enrollment in the district was on a gradual decline, thus removing average daily attendance as a significant factor that could help reduce the general fund balance deficit. Moreover, as large sums of money had to be borrowed each year to keep the district in operation, the portion of the district's revenue that had to be

dedicated to paying off the previous year's debts increased each year. Because of the limited resources, maintenance of facilities and equipment had to be deferred, and many items were found to be in need of repair. Foremost of the devastating factors mentioned was the reluctance of the district's depository bank to lend large sums of money to the district without secured debt. TEA had been assisting the district by ensuring that some of the year's state funding would be advanced in September in time to make the necessary payments on previous loans. Refusal of a loan or an advancement would mean payroll could not be met.

In late November of 1998, TEA officials came to visit with the board at a public meeting. While underscoring the seriousness of the district's financial condition, TEA emphasized the importance of the district reaching a decision of options to effectively address financial problems. The options as outlined by TEA were:

1. No changes. Continue with current operating policies and procedures. (This could cause the district to cease operations during the year);
2. Borrow money in order to keep the school operating ;
3. Implement a reduction-in-force (RIF) program consistent with board policy;
4. Contract out for certain services (e.g., transportation, food service, maintenance, etc.)
5. Become a K-6 district; or
6. Consolidate.

The board, in turn, called on TEA to save the district. Most local reaction took the TEA visit as one more obstacle that the district had to overcome as it had done many times before to keep the district going.

As a follow-up to the November visit, TEA called for a deficit reduction plan that would deal effectively with the financial exigency. This plan was to include a letter of commitment from a lending institution, if securing a loan was the option taken. It was due to be received at TEA by the end of December. The superintendent drew up what was his second deficit reduction plan and the board concurred. The plan was sent to TEA asking again for an advancement of the state funds due the district for the balance of the fiscal year. The plan did not contain a letter of commitment from a lending institution.

On January 4, 1999, TEA's response to the last deficit reduction plan arrived. The plan was turned down and state funds were not advanced to the district. The board president and the superintendent were summoned to TEA for clarification of expectations.

In order to begin the clarification process set by TEA, the board president, the board vice president, and the interim superintendent met with the Deputy Commissioner for Finance and Accountability on January 12, 1999. Although the district delegation requested financial help from TEA in order to try one more time to find a long-range solution, TEA's position was clear. The district had to find its own solution and reach its own decision regarding the options available to address the financial difficulties. TEA cautioned that the option chosen should not affect the quality of service to the students.

TEA also made a strong push for the district to contemplate annexation or consolidation with the neighboring district.

Needless to say, the reaction back at the district was to find a way to keep the district intact and to ward off annexation or consolidation. As a consequence of the January 12 meeting, the board created a sub-committee to review all options. It was composed of three board members, several parents and community leaders, the interim superintendent, and a few other staff members. After meeting several times and having serious discussions, the sub-committee decided that a financial advisory group was to be contacted to restructure the district's debt and find a lender to extend the repayment over a longer period of time.

After finding a financial advisory group to attempt the restructuring, the subcommittee pressed for a revisit with TEA. Separately, the teachers committed to doing their best to raise TAAS scores, hoping that good scores would help save the district. At the same time, several board members went on a news media blitz. Radio and television stations and newspaper offices were contacted hoping to garner support from the public in the surrounding communities for the district's plight with the State. Students were encouraged to write letters to senators, congressmen, and foundations to help save the district. All of this brought in a good number of reporters, but bore no political or financial help. Contacts with former politicians from the area were fruitless.

The requested revisit with TEA was granted for February 11, 1999. This time the district's delegation also included a number of subcommittee members who were

community dignitaries. The delegation met with not only the original TEA group from the January meeting, but also with the State Commissioner, the district's state representative, and a stand-in for a state senator. The state representative asked that all considerations be given to the school district. Different members of the delegation made impassioned pleas for TEA to save the district. TEA's position was for the district to produce the sought plan of action to resolve its financial difficulties. TEA reminded the district that consolidation was an option to be contemplated and that time was of the essence for this to take place. The district was given a deadline of February 26, 1999 to present a viable plan for the continuation of operations through August 1999. However, TEA did decide to accelerate the advancement of the remaining state fund payments requested by the district so that the district could meet payroll through May.

Upon return, the board decided to explore the possibility of consolidation. Representatives from the neighboring district and another district across the county were invited to present their plans, as to what would happen, should this district consolidate with theirs. While the board hoped to keep the elementary and the junior high schools operating, the best both districts could offer was to keep the elementary school open. Shortly afterwards, the board dropped the idea of consolidation with the district across the county line and began contemplating consolidation with the neighboring district, which surrounded the district and was the only other district in the county.

In the meantime, the financial advisory group met with the board. The group learned at the last minute that it needed to re-do some calculations on their proposed tax-rate increase. The group then rescheduled for another day and subsequently caused the

district to request an extension of the February 26 deadline. Upon its return, the group said it was unable to restructure the debt due to the factors placing the district in the given predicament. The board then opted to have another deficit reduction plan be presented to TEA with a request for TEA assurance that the district be saved. This plan was created with the help of some sub-committee members.

A few days after receiving the district's plan, TEA moved for mediation between this district and the neighboring district pending annexation. The mediation took place at the regional education service center during the district's Spring Break in early March. Upon arrival for the meeting, it was learned that the State Commissioner of Education had issued an Order of Annexation and had assigned a Master to the district (TEA, 1999). Although the district presented a list of twenty-seven mediation items, no promises were made by the receiving district. The district's bargaining position had virtually disintegrated. The district's delegation went home with the Order weighing heavy in their hearts and minds.

Over the remaining months, the board chose to "go down fighting" in its own way. As the order of Annexation meant dissolving the district, everyone in the district was to have their positions terminated. When the time came for teacher contract terminations, the board opposed the idea. The Master overruled. A concomitant expectation by TEA because of the Order was for student records and financial records to be shared at once with the receiving district. Along with this was the receiving district's expectation that the secondary-level students begin registration for timely selection of courses for the next

school year. The board members fought these transition efforts at every turn. Shortly after the new board (with one new person) was sworn in (in May), one more attempt was made to secure the services of another financial advisory group. This group reached the same conclusion as the previous one, which was that the district did not have the appropriate economic resources to restructure its debt.

During the last two months of school, a number of teachers also became involved with the events that were happening. Teachers with Continuing Contracts pushed to not only be offered a teaching position, but also a Continuing Contract, with the receiving district. Those that chose to join the receiving district obtained what they sought.

Then there was graduation. It was sad accepting that it was the last graduation ceremony for that district, but the students and families handled that emotionally ladened situation admirably. There was the hope for the remaining students, however, that the new district could provide more funding for the quality of services they deserved.

And last, but not least, there was the matter of meeting payroll and other operating expenses for the balance of the summer. That responsibility now went to the receiving district, as it was inheriting the property and debt of the district. At the end of the last day of June 1999, the district ceased to exist.

Concluding Statement

School districts operating in a near financial crisis situation need to seek immediate professional help to develop a plan on how to remediate the situation. The community

needs to be kept abreast of the situation, as the support of the community will probably be needed to make tough decisions. If the community wants to save its school district, then the factors that constitute the price that has to be paid have to be reviewed. Then the decision has to be made as to whether the community is willing to pay the price. If the community is willing, but the tax base is not there, then the options listed in this report must be enacted.

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